ESSENTIAL SERVICES COMMISSION

VICTORIAN RETAIL ENERGY MARKET OVERVIEW

2010-11

DECEMBER 2011

An appropriate citation for this paper is:

Essential Services Commission 2011 *Victorian retail energy market overview 2010-11* December 2011, Melbourne.

CHAIRMAN'S FOREWORD

RETAIL MARKET OUTCOMES AND CHALLENGES

Over the last decade, Victoria's retail energy market has been increasingly deregulated. Victoria now has a retail energy market comprising of more retailers than any other state. In 2009, the final vestiges of price regulation were removed. While the market has been freed to set prices, non-price regulation has continued to operate in order to ensure customers' interests are maintained within the more competitive environment.

While the non-price regulatory framework is wide ranging, it is generally light-handed in the sense that, to a large extent, retailers are trusted with their own compliance. The Essential Services Commission has, over a number of years, adopted a *modus operandi* that seeks to be low cost and responsive—dealing with issues as they arise, rather than pre-empting the myriad of issues that could arise. Our approach to regulating this sector has been in keeping with the principle of avoiding unnecessary red tape in order to minimise the costs imposed on service providers (and ultimately, customers). It has been generally accepted that competition, rather than regulatory imposition, is the more efficient means for promoting and creating good outcomes for customers.

For a range of reasons, the Commission's Energy Retailers Comparative Performance Report for 2010-11 reveals that:

- **Electricity prices have increased** by an average 6 per cent in 2010-11. This is less than the 13.5 per cent seen in 2009-10. Gas prices increased by an average 7 per cent in 2010-11, the same as 2009-10.

Despite this:

- **Customer service indicators showed a decline in performance** in 2010-11. For example, the average wait time to speak to an operator increased from 82 to 101 seconds and the number of calls abandoned increased to 8.5 per cent of all calls to retailers, up from 7.2 per cent in 2009-10.

So not surprisingly:

- **The number of complaints recorded by the retailers increased** significantly this year. The number of electricity complaints more than doubled (to 111 047) and gas complaints rose by 50 per cent (to 20 473).

It is also of concern that:

- **Participation in hardship programs decreased** in 2010-11 with 20 495 customers accessing retailers' financial hardship programs, 3 803 less than in 2009-10.

When at the same time:

- **Electricity disconnections have increased** by 33 per cent in 2010-11 from 0.59 to 0.77 per 100 customers. In total, 17 871 electricity customers were disconnected in 2010-11.

Over and above the results reported in the performance reports, the Commission is particularly concerned with the quality, reliability and accuracy of the data reported by retailers. This report highlights numerous cases of incomplete, inconsistent or doubtful data reporting. Moreover, the compliance audits underway (and due to be completed in coming months) give even greater cause for concern about the retailers' approach to their obligations within Victoria's otherwise non-interventionist framework.

Good disclosure of information to customers, the regulator and the community is a central feature of the Victorian regulatory framework. It has been an obligation from the outset of the reform process. It has represented the *quid pro quo* for being allowed to operate in the market without fetter of product or price.

We are concerned the Energy and Water Ombudsman (Victoria) has been increasingly required to play a role in negotiating payment plans, GSL payments and wrongful disconnection payments, when these are actually regulatory obligations with which the retailers must comply of their own accord.

We have written to retailers whose performance results give us cause for concern. Our letters are published on our website and we will similarly publish the retailers' responses. Moreover, as we complete our compliance audits of the retailers over the next few months, we will be requiring them to undertake to address all identified shortcomings in a timely manner. We will post these undertakings on our website along with regular implementation reports that retailers will be required to submit to the Commission.

Dr Ron Ben-David
Chairperson

VICTORIAN RETAIL ENERGY MARKET OVERVIEW

About this report

The Essential Services Commission has released its most recent annual reports on the performance of the Victorian energy retailers in relation to pricing and customer service. The reports (available at www.esc.vic.gov.au) update the publicly available information on the performance of both electricity and gas retailers for the past financial year.

The customer service data presented in this report are provided by each of the energy retailers in accordance with our *Information specification (service performance) for Victorian energy retailers*. We sourced the pricing data from our YourChoice website, the Victorian Government Gazette and retailers' websites. This report also incorporates other data and information available from the Australian Energy Market Operator (AEMO), the Department of Human Services (DHS) and the Energy and Water Ombudsman Victoria (EWOV).

We wrote to the retailers whose performance results give us cause for concern. Our letters are published on our website and we will similarly publish the retailers' responses. We expect to complete our retail compliance audits over the next few months and will require those retailers to undertake to address all identified shortcomings in a timely manner.

The purpose of this report is to provide a high level overview of the results emerging from the 2010-11 energy retailer performance reports, and to highlight any poor results, how the market is operating, and broader concerns that should be addressed.

Copies of the Commission's detailed reports:

- *Energy retailers comparative performance report – Pricing*
- *Energy retailers comparative performance report – Customer service*

can be downloaded from our website at www.esc.vic.gov.au.

Market activity

In Victoria, energy customers purchasing electricity and gas services have been able to choose their own energy retail supplier for almost 10 years.

Over that time, we have seen the entry of a number of new retailers into the Victorian markets for the supply of gas and electricity to residential and business customers. In 2010-11, Victoria had 27 licensed energy retailers, of which 20 were active in the market for residential and business electricity customers (though six of these retailers had less than 500 customers) and nine were active in the market for gas customers. The state has the largest number of retailers operating in Australia, with a number of them operating across jurisdictions.

The customer base for each of the retailers varies considerably. In the electricity market, for example, Diamond Energy had only 13 residential and 17 business customers in contrast to AGL's 580 000 plus residential customers and almost 80 000 business customers (a total of 26 per cent of the market). Further, some of the smaller retailers have chosen to focus on the large business customers. As a result significant variability is evident in the retailers' marketing approaches, the sophistication of their billing systems, their call centre arrangements and their operational policies.

The three incumbent or local retailers (AGL, Origin Energy and TRUenergy) still dominate the market for residential customers. Together they account for almost 70 per cent of the residential electricity market and 77 per cent of the gas market. While this appears to be slightly lower than last year, it does not take into account consolidation of, and related parties operating in, the Victorian retail energy market.

In March 2011 Origin Energy and TRUenergy purchased the electricity retail business and existing customer base of Country Energy and EnergyAustralia (respectively). These purchases equate to 4.8 per cent of residential electricity customers. Further, AGL wholly owns Powerdirect, which represent 0.6 per cent of the market share. In total, the market share of the three incumbent retailers is now closer to 75 per cent of the residential electricity market.

There are indications that this consolidation is affecting the pricing strategies adopted by these larger retailers. It appears that they may now be adopting somewhat less aggressive pricing strategies than the mid-tier firms who may be looking to capture market share. For example, a comparison of discounted electricity residential market offers suggests that AGL and TRUenergy are consistently pricing at the higher end of the range across most tariff types and distribution zones.

The proportion of customers switching between retailers remained steady in 2010-11 with about 28 per cent of electricity customers and 26 per cent of gas customers reported as having switched retailers during the course of the year. In total, 1.2 million Victorian customers switched their electricity and/or gas retailer. As in previous years, this is almost double the transfer rate of other Australian jurisdictions.[1] While this appears to suggest that the market in Victoria is active and that there is general awareness among Victorian energy consumers that they can switch their energy retailer, our work with community and other groups suggests that many customers still do not fully understand how the Victorian energy market operates.

[1] When compared to New South Wales, Queensland and South Australia.

Prices

Prices for both electricity and gas continued to increase in 2010-11, although the rate of increase was less marked than in 2009-10.

The price increases in the electricity and gas sectors over the last few years follow almost a decade of prices that have been lower or held constant compared with prices before the Victorian energy market reforms of the mid 1990s. Overall, the historical data on average annual bills for electricity between 1994-95 and 2010-11 indicates that:

- The average annual bill for residential customers on a two-rate tariff has increased by 26 per cent in real terms. Most of this increase has occurred in the last four years.

- The average annual bill for businesses on a single rate tariff fell by 26 per cent in real terms between 1994-95 and 2010-11, despite rising by 12 per cent in the past five years.

Similarly, the data on gas prices between 1999 and 2010-11 indicate:

- The average annual bill for residential gas customers on a standing offer single rate tariff rose by 32 per cent in real terms; and

- The average annual bill for business gas customers on a standing offer single rate tariff increased by 3 per cent in real terms.

Overall, these results suggest the early benefits of efficiency gains from the Victorian energy reforms now appear to have been overtaken by more recent changes to market conditions. The most commonly proffered explanations for these price increases are the higher costs associated with wholesale energy, distribution and retail operations. Further consideration needs to be given to whether the changing structure of the Victorian retail market might be also having an effect on retail prices.

Standing offers

Since 1 January 2009, all retailers have been required to publish standing offer tariffs for the supply of their gas and electricity services to residential and business customers. These tariffs apply to those customers who have not switched from their incumbent or local retailer (AGL, Origin Energy or TRUenergy) or not accepted a market offer. Standing offer tariffs effectively provide a benchmark from which to assess the benefits of accepting an alternative market offer.

For electricity customers on standing offer tariffs, prices in 2010-11 increased by between 1 and 9 per cent on average, depending on the distribution zone and tariff type. However, some retailers increased their standing offers by up to 18 per cent. The average price increase across all tariffs and distribution zones was 6 per cent in 2010-11, compared with 14 per cent increase in 2009-10.

The story was similar for residential gas customers on standing offer tariffs. As with electricity standing offers, many retailers' standing offer tariffs varied considerably within a distribution zone. The average prices in each distribution zone increased in 2010-11 by between 2 to 9 per cent. However, prices varied greatly in the established distribution zones, by up to $300. The average price increase across the distribution zones was 6 per cent in 2010-11, which was less than the 8 per cent increase in 2009-10.

The main reasons that the retailers cited for the increase in standing offer price were: increases in energy costs (wholesale), network costs (including the statewide rollout of advanced metering technology) and overall retailer costs. We note, however, that most of the one-off increase in distribution costs due to 'smart meter' installation occurred in the previous financial year.

Market offers

From 1 January 2009, all retailers with over 500 customers have been required to publish on their websites at least one market offer that is generally available to customers for each distribution zone and meter type. The retailers must provide these market offers for the Commission to publish on our YourChoice website.

The information published on the YourChoice website suggests the price of electricity has increased for the majority of offers in 2010-11, although by a smaller percentage than in 2009-10.

- For residential electricity market offers, prices (in nominal dollars) increased by an average 6 per cent over the past 12 months, less than the 13.5 per cent rise reported in 2009-10.
- For residential gas market offers, prices increased by an average 7 per cent in 2010-11.
- Business customers faced price increases in 2010-11 of up 9 per cent for gas and 10 per cent for electricity.

For customers switching from a standing offer to a market offer, shopping around for the best discounts and bonuses can result in savings of around 10 per cent on their annual electricity bill. On average, when they switch from a standing offer (default offer) to a market offer with all discounts included, residential customers can save $107 per year on a single rate tariff, $143 on a two-rate tariff and $205 on a time-of-use tariff. Gas customers can save an average 7 per cent (or $80) when switching from a standing offer to a fully discounted market offer.

For business customers, the difference between a standing offer and a fully discounted market offer was an average $620 for gas. For electricity, this difference was an average $332 for single rate business customers and $878 for time-of-use business customers. Again, the price data show shopping for a better offer can help business customers reduce energy bills.

The information reported by retailers on their discounted market offers suggests the incumbent retailers (which together retain most market share) may be adopting similar pricing strategies that result in pricing towards the higher end of the market. In particular, a comparison of discounted electricity residential market offers in 2010-11 indicates AGL and TRUenergy were consistently the highest priced offers across most tariff types and distribution zones.

In contrast, Dodo Power & Gas was consistently among the lowest priced offer across all tariff types and distribution zones. Click Energy, Momentum Energy and Lumo Energy also appeared to have lower priced offerings in some cases.

In the gas sector, the incumbent retailers appear to have adopted different strategies. As in the residential electricity market, TRUenergy offered the highest residential gas prices across most of the gas distribution zones, although Simply Energy and Lumo Energy's tariffs were also among the most expensive.

The prevalence of the incumbent retailers at the high price end of the gas market was less obvious—for example, Origin Energy and EnergyAustralia's market offer prices were among the lowest for gas residential customers. We will observe in 2011-12 how the pricing practices of both Origin Energy and TRUenergy may change in light of their respective purchases of Country Energy and EnergyAustralia.

A key component of a customer's energy bill is the supply charge. The retailers' supply charge for electricity market offers rose in every distribution zone in 2010-11—up an average 10 per cent, after rising by an average 39 per cent in 2009-10. The retailers' reliance on fixed supply charges relative to usage charges has implications for the extent to which customers have an incentive to manage their electricity consumption and to reduce their bills in times of financial stress (as discussed below).

Price is unlikely to be the only feature of market offers that customers value. Retailers offer other bonuses, discounts and special offers, such as discounts for payment on time, direct debit payment and email billing, and loyalty credits and retail shop discounts. The marketing focus on these features is likely to have influenced the decisions of many customers to switch retailers and to sign new market offers.

The number of electricity and gas customers using the direct debit system for bill payment increased over the past year. These increases may reflect the use of market offers that provide a discount or incentive for paying by direct debit. However, retailers also benefit from offering direct debit: for example, the number of direct debit defaults was low in 2010-11 for both electricity and gas transactions. For electricity retailers, direct debit defaults fell to 0.33 per cent of transactions; for gas retailers, they rose slightly to 0.27 per cent of transactions.

Call centre performance and complaints

As noted, price is not the only reason that customers choose to switch retailers. Sometimes, their decision to switch reflects dissatisfaction with the existing retailer's performance (for example incorrect billing or poor call centre responsiveness when issues arise).

In 2010-11, the number of customer complaints reported by the electricity retailers doubled to 111 047 complaints (compared with 54 134 the previous year). Gas retailers also reported a significant increase, up to 20 473 complaints from 13 691 in 2009-10. The rate of increase in complaints is concerning.

Complaints increased in 2010-11 for every electricity retailer except Simply Energy. The most significant increases were for Lumo Energy (whose total complaints increased from 11 474 to 48 783) and Australian Power & Gas (whose total complaints also increased substantially from 1 045 to 4 442). Complaints related to 'billing' accounted for 41 per cent of total electricity retail complaints. All gas retailers reported a rise in complaints in 2010-11, with Simply Energy reporting the largest increase.

The data on complaints are mostly consistent with the experience of EWOV, which reported a significant increase in the number of complaints received for full investigation in 2010-11. The number of complaints investigated increased by 57 per cent on the 2009-10 to 11 203 complaints. EWOV complaints investigated in relation to affordability increased by 79 per cent.

It is also interesting that the number of complaints categorised as 'other' have increased markedly in the data collected by the Commission (though EWOV's data shows an 11 per cent fall in 'other' complaints). While we note that a disproportionate share of the increase in 'other' complaints was reported by one retailer (Lumo Energy), in the year ahead, we will investigate the new types of complaints that might be rising to prominence. If necessary, we will take action to update the regulatory framework to ensure these types of complaints are adequately addressed by retailers.

The retailers report information on the performance of their call centres, including the total number of calls to electricity and gas account lines (phone lines), the number of calls forwarded to an operator, and the proportion of these calls answered by an operator within 30 seconds.

In 2010-11, the performance results on these measures were disappointing, having deteriorated significantly. While the number of calls to the retailers increased by 6 per cent to 5.05 million:

- The proportion of calls answered by an operator within 30 seconds decreased by 4 per cent, to 59 per cent.

- Customers who abandoned their call while waiting for an operator to respond rose by 24 per cent to 426 664 (equivalent to 8.5 per cent of all calls to retailer account lines).

- The average time that consumers spent waiting for an operator was 101 seconds—19 seconds longer than the average wait in the previous year (a 23 per cent increase).

These results were generally consistent with independent research that we commissioned on call centre performance, which included the results for ten Victorian retailers. [2]

According to the independent call centre research, the poor performance of retailers' call centres in 2010-11 differed little from the national energy sector average in many customer service areas. Further consideration needs to be given to this observation and its implications for Victorian customers.

Moreover, it is worth comparing the call centre performance of the energy sector with that observed in the water industry. Our monitoring in the Victorian water sector in comparison shows that wait time to speak to an operator was 27 seconds, 74 seconds less than the energy wait time. While the energy sector reported 56 per cent of calls were answered within 30 seconds, compared to 90 per cent for the urban water industry.

The impact of rising prices on customers

There are signs that recent increases in energy prices are contributing to financial stress among energy customers. In particular, the 2010-11 reported data indicates that:

- Electricity disconnections rose by 33 per cent in 2010-11 from 0.59 to 0.77 per 100 customers. In total 17 871 electricity customers were disconnected in 2010-11.

- The proportion of customers disconnected and then reconnected at the same address increased to 47 per cent of all disconnections in 2010-11, up from 43 per cent in 2009-10.

- Participation in hardship programs decreased in 2010-11. In total 20 495 customers accessed retailers' financial hardship programs, down 3 803 on the number in 2009-10.

- The rate of customers on budget instalment plans remained relatively steady at 4.04 plans per 100 customers in 2010-11, compared with 4.07 in 2009-10.

[2] Customer Service Benchmarking Australia 2011, *Comparative Victorian Energy Utility Call Centre Performance Report 2010-11,* Melbourne. The 10 retailers subject to the exercise were: AGL, Australian Power & Gas, Country Energy, EnergyAustralia, Lumo Energy, Neighbourhood Energy, Origin Energy, Red Energy, Simply Energy and TRUenergy.

Clearly, increasing energy retail prices are not the only factors contributing to financial hardship for many people in the community. Other non-discretionary (or low-discretionary) expenditures are rising at rates greater than inflation; and at a time of increasing economic uncertainty.

In 2010-11, the Victorian Government responded to these challenging times by increasing funding for concessions. The number of electricity grants that the Department of Human Services approved under the Utility Relief Grant Scheme rose by 10 per cent in 2010-11. Total government expenditure on concessions increased in 2010-11 by 49 per cent, up to $161 million from $113.5 million in 2009-10.

The retailers also can do much to assist customers who find themselves in difficult financial circumstances. In Victoria, energy retailers must assist customers to stay connected to electricity and gas supply by offering payment assistance, hardship programs and access to government concessions and grants. Ultimately, if an energy customer does not pay their bill, then the energy retailer may disconnect the customer. Before doing so, however, retailers must follow a strict process or risk disconnecting the customer wrongfully and incurring a penalty of $250 per day.

In 2010-11, 20 319 residential electricity and gas customers accessed retailers' financial hardship programs. This number was 16 per cent less than the 2009-10 total of 24 122. In addition, the rate of customers on budget instalment plans remained steady at 4.04 plans per 100 customers compared with 4.07 in 2009-10. It is not at all clear why fewer customers would be accessing hardship policies and instalment plans given the continued increase in energy prices over the last year and the increase in customer affordability concerns identified by EWOV.

These results are all the more concerning in light of the 33 per cent increase in electricity disconnections in 2010-11. In total, 17 871 electricity customers (up from 13 486 in 2009-10) were disconnected. For gas, the disconnection rate decreased in 2010-11, down to 0.74 from 0.85 per 100 customers in 2009-10. In total, 13 741 gas customers were disconnected in 2010-11. More stark is the trend over the past five years, with the number of disconnections in electricity more than doubling since 2006-07 (from 6 968 to 17 871) and by almost 70 per cent in gas (from 8 145 to 13 741).

Further, the number of customers who had previously participated in a hardship program and were disconnected increased significantly in 2010-11, to 1 159 customers from 642 in 2009-10.

The proportion of customers disconnected and then reconnected at the same address also increased, up to 47 per cent of all disconnections in 2010-11, up from 43 per cent in 2009-10. This proportion is normally an indicator that customers are being disconnected because they are struggling with their payments, rather than leaving an address without paying their accounts.

Some of the middle tier retailers appear to have disproportionately high rates of disconnection. Australian Power & Gas, Simply Energy and Red Energy reported some of the highest number of electricity disconnections per 100 customers (2.41, 2.13 and 1.22 per cent respectively). Australian Power & Gas also had the highest number of gas disconnections per 100 customers (2.29) followed by Lumo Energy (1.47) and Red Energy (1.34).

Overall, these results suggest energy retailers generally (and some in particular) are taking a tougher stance on helping customers in financial hardship. In particular, retailers may not be seeking to identify and assist those in financial hardship and they are increasing relying on disconnections to manage debt. This behaviour seems to be occurring at a time when customers are calling for greater understanding, communication and assistance.

Again, the performance of the energy industry lies in stark contrast to that of the water industry. The water sector appears to have adopted a more collaborative approach to restrictions for non-payment and hardship customers. While the same financial pressures exist for water customers, the 2010-11 water performance data reveal the number of restrictions for non-payment (disconnection) is decreasing and the number hardship program participants is increasing. If energy retailers were more proactive in assisting customers, better outcomes could result for energy customers.

EWOV has also observed the energy retailers taking a harder line on account arrears and pursuit of energy debt:

> *The issue of customer financial hardship is still very obvious in our cases. Given energy and water are essential services, this is of great concern. Our Credit issues category is about customers being able to pay their bills and stay on supply. In 2010-11, 8566 customers raised Credit as their main issue of complaint and a further 6029 customers raised Credit as an associated issue.*
>
> *Electricity, gas and water prices are up. People are facing other cost of living pressures. Many of the customers who contacted us were concerned about paying their bills and making ends meet. It was also evident that energy retailers were taking a harder line on account arrears and pursuit of energy debt.* [3]

In late 2010, the Commission commissioned Hall and Partners to undertake a study to provide greater insights into the experience of customers in financial difficulty when dealing with water and energy retail businesses.[4] Hall and Partners suggested that water and energy retail businesses could be doing more to provide appropriate support to customers experiencing hardship**.** In particular, the report noted customer calls for a change how the delivery of hardship provisions is managed. They also called for better information on the different forms of assistance available, greater flexibility in structuring instalment plans and better management of the threat of disconnections or restriction of supply.[5]

---

[3] Hall and Partners / Open Mind 2011 p.5.

[4] Hall& Partners/Open Mind 2011, *Customers of water and energy providers in financial hardship: a consumer perspective,* May.

[5] Hall & Partners / Open Mind 2011, p. 5.

In light of the increase in disconnections in 2010-11 and expected higher prices and pressure on finances for many in the community, the Commission will investigate whether any amendments to the regulatory framework are needed. Unless we are satisfied that retailers are genuine in their endeavours, we will impose enforceable undertakings and we will not resile from taking escalated action if necessary.

Improving energy efficiency

Over recent years, both state and federal governments have focused on developing and implementing policies aimed at reducing energy consumption and promoting alternative less carbon intensive energy supply sources.

Our recently commissioned report on financial hardship revealed the customers surveyed are often frustrated that reducing their energy consumption did not always translate into reduced bills because of the increasing price of energy.

> *Many describe how hard they are trying to conserve energy and use less water, however feel frustrated when they put significant effort in keeping their costs down yet their bills don't reflect this downward trend. Their expectation that they will be rewarded from these efforts with smaller and smaller bills translates into shock as bills become mover time larger and larger.*[6]

This is partly explained by the heavy reliance, by some retailers, on fixed charges. This reduces incentives and opportunities for customers to reduce their energy consumption as well as their ability to reduce their total bills. Reducing fixed charges related to energy supply would be one way to enhance incentives for improving energy efficiency. As noted, residential electricity supply charges increased on average by 10 per cent in 2010-11 (a range of 7 to 14 per cent). The supply charges varied significantly across retailers, by as much as 37 cents per day in some areas (which equates to $135 per year).

To be clear, retailers are obliged to develop <u>and implement</u> financial hardship policies that allow for auditing customers' electricity use and providing replacement appliances when appropriate. This process occurs mostly when the customer has an appliance that contributes to the accumulating debt. Helping customers pay for an appliance is a cost-effective way to minimise debt escalation.

Field audits of customers' electricity use can be wholly or partly at the expense of the retailer. In 2010-11, the total number of energy field audits was 976. This total was less than the 1 188 undertaken in 2009-10. However, 90 per cent of the audits were undertaken by two companies only (AGL and Origin Energy). Similarly, AGL undertook almost all of the appliance replacements (although its data included light bulb replacements). A number of retailers did not undertake any energy field audits or appliance replacements.

---

[6] Hall and Partners, / Open Mind p.17.

The general decline in hardship program participation and assistance being provided to hardship customers unfortunately seems to be correlated to a more general trend in the retail energy industry whereby customer service standards seem to be in decline.

The results suggest energy retailers may need to reconsider how they can better provide incentives and assistance for energy customers to reduce their energy consumption, particularly for those customers who may be facing financial difficulty.

The market going forward

Energy retail prices are expected to continue to rise across Australia.

The AEMC indicated electricity retail prices are likely to rise in all jurisdictions until at least 2012-13. [7] Nationally, this expectation reflects significant increases expected in the cost of distribution network services from 2009-10 to 2012-13.

The expected distribution network cost increases will be more modest in Victoria than in other jurisdictions (9.8 per cent compared to a national average of 41.24 per cent). The AEMC report notes that the most significant contributor to the increased retail prices over the period is likely to be a rise in retail costs (accounting for 60.6 per cent of the expected increase). However, an expected tightening in the demand/supply balance is forecast for 2012-13 and will likely increase wholesale electricity prices.

The continued pressure on prices is likely to provide a strong incentive for energy customers to look for a better deal. The potential competitiveness of the Victorian energy market and the opportunities for choice between numerous retailers with varied price and service offerings may ameliorate some of these price increases. What is less certain is the extent to which all Victorians will be able to actively participate in the competitive market, because of their understanding and ability to access and assess alternative market offers. Also uncertain is how further consolidation of the retail energy market will affect the competitiveness of the market, particularly given that the three incumbent retailers still account for such as significant market share.

The expected continued price rises and tight economic conditions underscore the importance of appropriate processes and policies to manage people in financial hardship and distress. Proactively managing financial hardship will be as important for customers as for the competitiveness of retailers.

We expect retailers will have to focus more on how they balance competitive price offerings with customer service, including how they manage complaints and assist their customers in times of financial distress.

In the face of such changing economic and market conditions, it will be important to ensure the regulatory framework remains focused on the long term interests of Victorian customers.

---

[7] Australian Energy Market Commission (AEMC) 2010, *Future possible retail electricity price movements: 1 July 2010 to 30 June 2013, Final report*, 30 November, Melbourne.

Further reading

This document provides an overview of the Victorian energy market in 2010-11. For comprehensive details, refer to *Energy retailers comparative performance report—customer service 2010-11* and *Energy retailers comparative performance report—pricing 2010-11*. These two reports are available to download from our website at www.esc.vic.gov.au.